



UNITED STATES BUSINESS AND INDUSTRY COUNCIL

FIGHTING FOR AMERICAN COMPANIES AND AMERICAN JOBS SINCE 1933

July 12, 2010

Hon. Daniel Lipinski
1717 Longworth House Office Building
Washington, DC 20515

Dear Rep. Lipinski:

On behalf of the 2,000 domestic manufacturing companies comprising the U.S. Business and Industry Council, I am writing to thank you for introducing H.R. 4692, the National Manufacturing Strategy Act of 2010, and to offer our strong support for this legislation. Your legislation will create the policy framework urgently needed by the nation to revitalize its dramatically weakened domestic manufacturing sector, and thereby help achieve genuine recovery from the ongoing economic crisis. We strongly urge its prompt passage by Congress and enactment into law.

Although most of Washington remains uneducated as to the centrality of domestic manufacturing for a strong economy, the paramount lesson of the current economic crisis is that the United States needs a completely new strategy to deal with the so-called globalization of our economy and to revitalize our industrial base.

For decades, most of our political and multinational business establishment has promulgated the falsehood that American prosperity could be based on borrowing, spending, and importing. Creating real wealth – the historical foundation of national success – and creating the appropriate policy environment for it were totally ignored. The U.S. housing and financial sectors were coddled (with artificially low interest rates and the abandonment of successful oversight in laws like Glass-Steagall), while manufacturing – which has been the dominant factor in domestic wealth creation since the nation industrialized – was neglected and even scorned. Typical was former Federal Reserve Chairman Alan Greenspan's remark that manufacturing is "something we were terrific at fifty years ago....essentially a nineteenth- and twentieth-century technology." A worldwide financial meltdown, painful recession, and mammoth long-term U.S. debt burden have been the inevitable results.

Your introduction of the National Manufacturing Strategy Act demonstrates convincingly that you and your cosponsors understand that restoring our nation's economic health requires ***producing not consuming*** our way out of recession, and that expanding our industrial output is the biggest key to success. But without swift Congressional and presidential action, the U.S. economy may deteriorate past the point of no return.

America's massive manufacturing job loss and factory closings over the past decade are well known. But even more serious signs of the sector's distress abound. Despite trillions of dollars of government stimulus spending, tax breaks, and industry bailouts, the U.S. economy has shrunk in real terms by 1.14 percent during the recession. But manufacturing output, though now higher than its recession trough, is still down 9.72 percent – and recent scholarly research indicates that even this figure

may significantly understate the devastation

In addition, industrial capacity has fallen during this recession for only the second time since the end of World War II. A new report by the U.S. Business and Industry Council shows that, in 2008, imports captured 36.23 percent of America's domestic markets for advanced manufactured goods like semiconductors, aircraft, construction equipment, machine tools, and pharmaceuticals. In 1997, the figure was only 21.36 percent.

To make matters worse, many in the political leadership class seem determined to recreate the borrowing, spending, and importing bubble that just burst so disastrously. For example, the same Wall Street firms whose crackpot lending and compensation policies, and especially their phony financial instruments, helped trigger the crisis received an enormous bailout, and the new financial regulation bill generally preserves their too-big-to-fail status and license to speculate recklessly. The Fed's loose-money policies have become free-money policies, and outright spending and lending subsidies. Finally, too much of the economic stimulus package was simply unproductive spending.

Meanwhile, here's the "help" that genuinely productive industries like manufacturing have gotten:

- A miserly auto rescue package that has helped reduce GM to its 1920s dimensions;
- Auto and appliance rebate programs that spurred the purchase of at least as many imports as domestically produced goods;
- Buy American stimulus bill provisions shot through with loopholes;
- Vague rhetoric about "green manufacturing" that ignores the need to ensure these industries remain onshore;
- and the continued pursuit of outsourcing-focused trade agreements sure to send more productive American jobs abroad.

Largely as a result of misguided policies, personal consumption is even higher today than at its dangerous pre-crisis levels, the trade deficit in the first quarter of this year grew more than 10 times faster than the economy, and the manufacturing trade deficit is up by more than 19 percent on an annual basis – with manufacturing exports continuing to grow more slowly than total goods exports despite 15 years worth of free-trade agreements touted as foreign market-opening bonanzas.

No wonder the unemployment rate remains sky high, and only the federal government and heavily subsidized sectors, like health care and education, are creating meaningful numbers of jobs.

The National Manufacturing Strategy Act will help replace this failed binge-spending and borrowing approach with a strategy aimed at promoting the production- and earnings-based prosperity that only a much stronger manufacturing sector can create.

The U.S. Business and Industry Council is especially heartened by the following features of the bill:

1. It would encourage a long overdue explicit acknowledgment by Congress of domestic manufacturing's central role in generating and preserving American prosperity, technological progress, and national security.
2. It recognizes that a sweeping and concerted federal government-wide effort is instrumental for domestic manufacturing's revival.
3. It would require several federal studies to assess domestic manufacturing's strengths and weaknesses rigorously and comprehensively. Similarly, it would foster detailed government study of manufacturing trade and off-shoring flows, and federal procurement of manufactures imports in the civilian and defense sectors. These provisions would fill much of the knowledge vacuum that currently hamstrings U.S. manufacturing policymaking. In the process, the legislation would end the monopoly currently enjoyed by outsourcing-happy multinational companies over too much crucial manufacturing and national security-related data.
4. It recognizes the scale of the challenges facing domestic manufacturing by setting a deadline of February, 2011, for publication of the first annual White House National Manufacturing Strategy blueprint.
5. It recognizes that expanding manufacturing employment requires expanding manufacturing production – that only healthy industries can create new jobs and preserve existing positions.
6. It understands that active efforts are needed to ensure that more of America's wealth and investment capital gets channeled to productive activities like manufacturing.
7. It would mandate that the Executive Branch and Congress examine the often make-or-break impact of the range of federal policies on manufacturing's fortunes.
8. It recognizes the special importance of small and medium-sized manufacturing companies, which through their production of precision parts and components in particular generate so much of America's value-added and innovation.
9. It gives these companies meaningful representation on the proposed President's Manufacturing Strategy Board.
10. It promotes follow-through and accountability in domestic manufacturing policy by requiring a Comptroller General's evaluation of the President's manufacturing strategy blueprint – including progress in implementation – and a presidential report on “the consistency of the budget with the goals and recommendations included in the blueprint.

America's economic and industrial success has always resulted first and foremost from its free-enterprise system. But government has consistently played a major role, too, from the publication of Alexander Hamilton's *Report on Manufactures* to the National Institutes of Health's support for pharmaceutical research to the Defense Department's nurturing of the aviation and information technology sectors. And this government role will surely expand as competition intensifies from foreign countries whose leaders vigorously support their industries in a host of overt and covert ways.

Your National Manufacturing Strategy Act will boost the odds of America's getting manufacturing policy right. Thank you again for introducing this vital legislation. The U.S. Business and Industry Council looks forward to working with you to help it attract the strong support and quick passage it deserves.

Sincerely,

A handwritten signature in black ink, appearing to read "K. L. Kearns", with a stylized flourish at the end.

Kevin L. Kearns
President
U.S. Business and Industry Council